

IRS TAX TIP 2004-59

CLEAN FUEL TAX DEDUCTION FOR HYBRID VEHICLES

If you are the original owner of a qualifying hybrid vehicle – one that combines an electric motor with a gasoline-powered engine – you may be eligible to claim a one-time tax deduction on your federal income tax return, says the IRS.

Certain Toyota and Honda models qualify for the deduction:

- Toyota Prius — Model Years 2001 through 2004
- Honda Insight — Model Years 2000 through 2004
- Honda Civic Hybrid — Model Years 2003 and 2004

The deduction amount is \$2,000 for cars first put into use before 2004. Under current law, the clean-burning fuel deduction will be reduced by \$500 each year, starting in 2004, until it expires. No deduction will be allowed for vehicles placed in service after Dec. 31, 2006.

The deduction was set after the Toyota and Honda corporations documented for the IRS the incremental costs of buying their hybrid vehicles. The deduction must be taken for the year in which the vehicle was first used. For a car first used before 2003 but for which the deduction was not yet taken, a taxpayer may claim the deduction on an amended tax return, using Form 1040X.

This benefit is taken as an adjustment to income. You do not have to itemize deductions on your tax return to claim it, but you do have to use Form 1040. Include your deduction on the dotted line to the left of line 33 of the 2003 Form 1040, and identify as “clean fuel.”

Federal tax law allows individuals to claim a deduction for the incremental cost of buying a motor vehicle that is propelled by a clean-burning fuel. Hybrid vehicles obtain greater fuel efficiency and produce fewer emissions than similar vehicles powered solely by conventional gasoline-powered engines.

For more information on the clean fuel deduction, see IRS Publication 535, “Business Expenses” (hybrid vehicles do not have to be owned or used by businesses to qualify for the deduction). This publication is available on the IRS Web site, *IRS.gov*, or by calling 1-800-TAX-FORM (1-800-829-3676).

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